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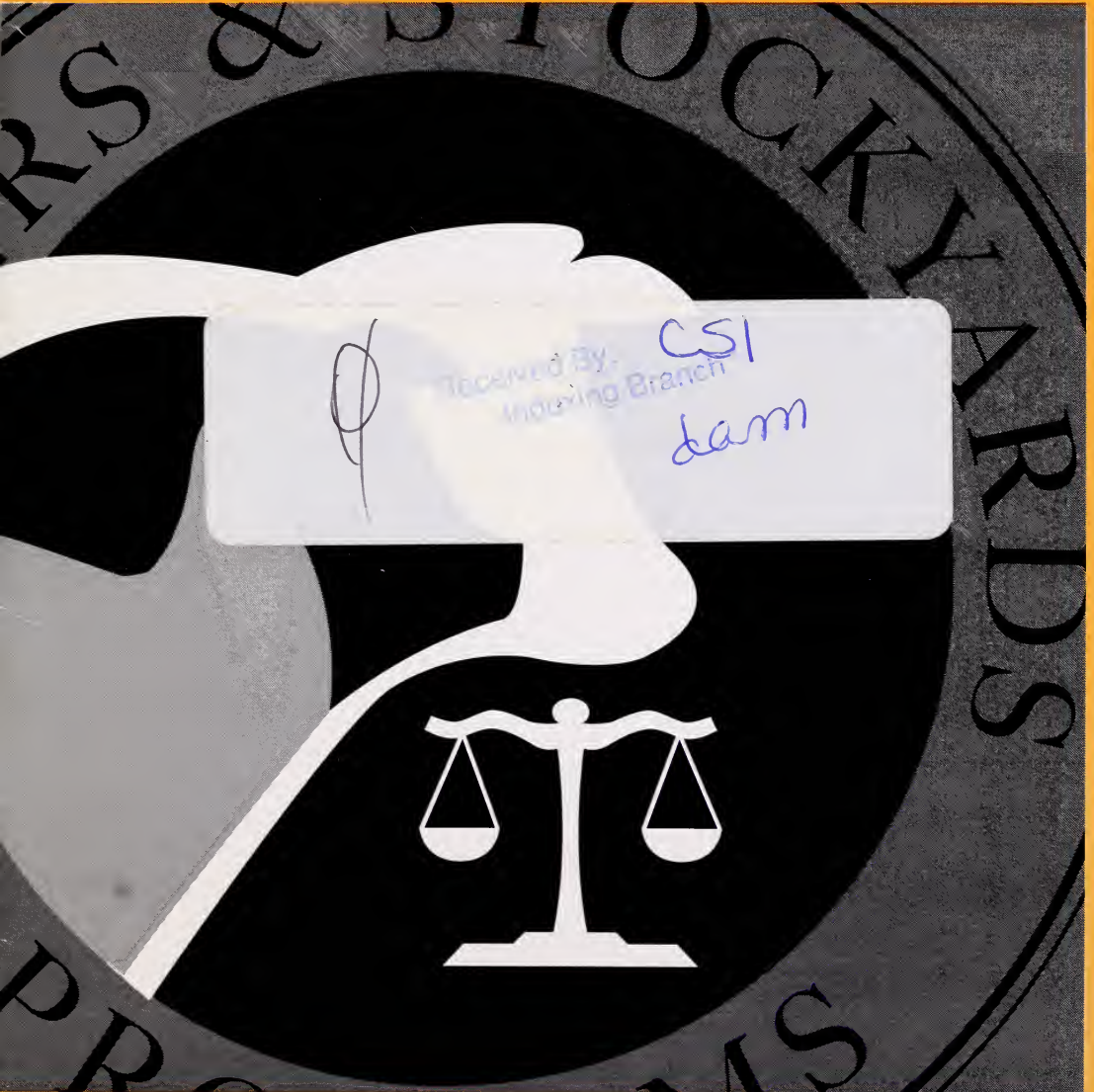
# Custodial Account Instructions

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# Custodial Account Instructions

1. **Custodial Account Requirement:** All market agencies selling livestock on a commission basis are required by section 201.42 of the regulations issued under the Packers and Stockyards Act to establish and maintain a separate bank account designated as "Custodial Account for Shippers' Proceeds." The account must be used to deposit custodial funds and disburse all funds due to consignors from livestock sold on a commission basis. All checks to consignors in payment of the net proceeds from the sale of consigned livestock must be issued on the custodial account.
2. **General Bank Account:** The market agency must have a separate bank account for general and operating expenses and for livestock purchases on a commission basis or as a dealer. The custodial account cannot be used to pay operating expenses or to pay for any livestock purchases.
3. **Trust Account:** The custodial account is a trust account and the bank must be informed that the depositor (market agency) is acting as a fiduciary and that the funds in the account are trust funds.
4. **FDIC Bank:** Custodial accounts must be maintained in Federal Deposit Insurance Corporation (FDIC)-insured banks. To enable each shipper to have FDIC coverage, the selling agency must have the account properly labeled as a "Custodial Account for Shippers' Proceeds." This designation must appear on deposit tickets, checks, and bank statements. Names of those shippers having an interest in the account and the amounts which are due each consignor must be clearly disclosed in the records of the market agency in whose name the custodial account is maintained.

5. **Custodial Account Checks:** Custodial account checks must be serially numbered and must be imprinted with the name of the market agency and the wording "Custodial Account for Shippers' Proceeds" on the face of the checks. Checks of a different color from the general account checks will help avoid bank errors.
6. **New Account-Initial Deposit:** When a new custodial account is opened, the market agency should make an initial deposit of its own fund unless arrangements can be made for the bank to honor the first checks presented.
7. **Deposits to Custodial Accounts:** All money received on sale day from buyers in payment for livestock sold on a commission basis must be deposited directly to the custodial account before the close of the next business day after the sale day. Further, the custodial account must be reimbursed before the close of the next business day after the sale for any proceeds due for livestock sold to the market agency, its owner, officers, or employees, or any buyer to whom the market agency has extended credit. All money received thereafter in payment for livestock sold on commission must be deposited directly to the custodial account until the account has been reimbursed in full. The account must be reimbursed, in full, within 7 days after the sale day whether or not the proceeds receivable have been collected. (See Exhibit B.)
8. **Proceeds Receivable:** Proceeds receivable are receivables due the market agency from the sale of consigned livestock that were not paid on the day of purchase. To be classified "proceeds receivable" rather than "accounts receivable," each of the following conditions must be met:

(a) no agreement has been entered into with the buyer under which the buyer has been relieved of the duty to transmit or deliver to the market agency the full amount of the purchase price by the close of the next business day following the purchase of livestock;

(b) the receivable has not remained uncollected for a period of more than 7 days after the date of sale; and

(c) the receivable is not due from the market agency, any of its owners, officers, or employees.

**9. Withdrawals From Custodial Account:** The custodial account can be used to pay only the net proceeds due to consignors, to pay for lawful charges from consignors' invoices, and to pay the charges due the market agency as compensation for its services. Charges for commissions, yardage, and other services which have been deducted from the account of sale and are due the market agency should be totaled at the end of each sale day and transferred to the general account. Miscellaneous charges against a consignment (trucking, brand and health inspection fees, meat board, etc.) which have been deducted from the sales proceeds may be paid directly from the custodial account.

**10. Savings Accounts - Investments:** Custodial account funds may be maintained in interest-bearing savings accounts or invested in one or more certificates of deposit to the extent the market agency's ability to meet its obligations to its consignors is not impaired. Any such savings account or certificate of deposit must be properly identified as being part of the custodial account and maintained in the same manner as the custodial account.

## **11. Custodial Account Cannot Be Used To:**

- (a)** pay general expense items of the market agency such as salaries, rents, supplies, repair of facilities, owners' personal withdrawals, etc. (Such checks should be written on the general account.);
- (b)** make advances on livestock received on consignment or make advances for the purchase of livestock;
- (c)** finance buyers by allowing a period longer than the period specified in section 409 of the P&S Act; and
- (d)** finance livestock purchases of the market agency.

## **12. Custodial Account Analysis:** (See Exhibit A) It is essential for the market agency to know that its custodial account is in proper balance at all times. To make that determination, the market agency should make at least a monthly reconciliation and analysis of its custodial account and retain it as part of its books and records.

## **Exhibit A**

### **How To Analyze a Custodial Account**

*Steps to determine if your custodial account is in balance:*

1. Obtain monthly custodial bank statements together with honored or paid checks (or other evidence of checks paid if the bank does not return paid checks) as of the book closing date or analysis date.
2. Sort or arrange paid custodial checks in serial number order. Markets should not destroy, but should retain, voided checks in the market's records.
3. Determine which checks have been issued but not cashed (outstanding checks) by comparing checks that have cleared with check register, check stubs, or carbon copies of checks written. Mark off those checks that have cleared. Market agencies should periodically contact consignors that have not cashed their checks to encourage prompt negotiation of old outstanding checks, and when necessary, issue new checks to replace lost checks.
4. Prepare a list of check numbers and amounts of all checks issued but not cashed. The total of these checks should be shown as outstanding checks in the analysis. Markets' should identify and retain in the company's records all outstanding check listed as "Outstanding Checks (month) (year)."
5. Prepare a list from the sales journal or other records, by sale date, of consignors of livestock for which checks have not yet been issued. Show the total amount due to consignors in the analysis.

6. Prepare a list of unpaid expense items deducted from consignors' proceeds remaining in the account, such as check off fees, health inspections, etc. Show the total amount remaining unpaid in the analysis. Do not include amounts due to the market for services, such as commissions and yardage, etc.
7. Prepare a list, by purchase date, of buyers' names and amounts of all uncollected items. Total those receivables for the sale of livestock sold on consignment that originated less than seven (7) days before the analysis date. Exclude those amounts originating one (1) or more days before the analysis date that are due from the market, owners, officers, employees, or those to whom the market has extended credit. Show this total as "Proceeds Receivable" in the analysis.
8. Total all cash and checks received from buyers that the market has not yet deposited. Show this as "proceeds on hand" in the analysis.
9. Total all deposits in the mail or in the bank, but not recorded on the bank statement. Show as "deposits in transit" in the analysis.
10. The custodial account is in balance if the bank balance plus deposits in transit, custodial funds invested in certificates of deposit and/or savings accounts, proceeds on hand, and proceeds receivable are equal to the outstanding checks, proceeds due consignors for which checks have not yet been issued, and unpaid expense items remaining in the account.

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Balance as per bank statement	\$ _____
Deposits in transit (in mail or bank, but not on statement)	_____
Certificates of deposit and savings accounts designated as custodial funds and on deposit in the bank carrying the custodial account	_____
Proceeds on hand	_____
Proceeds receivable	_____
<b>Total Debits</b>	<b>\$ _____</b>
Outstanding checks and drafts which have not cleared the bank	\$ _____
Proceeds due consignors of livestock for which checks have not yet been issued	_____
Unpaid expense items deducted from consignors' proceeds remaining in account	_____
<b>Total Credits</b>	<b>\$ _____</b>
Overage or shortage (if any)	\$ _____

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# **Exhibit B** **Chart of Required Deposit Dates to Custodial Account**

	Deposit day for funds	Deposit day for funds
Sale day	(a) Collected on sale day (b) Due from the market agency (c) Due from an owner, officer, or employee (d) Due from any buyer to whom credit was extended	Due from all other buyers

Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday
Friday	Saturday*	Friday
Saturday	Monday	Friday**

\* If Saturday is a nonbanking business day in the particular location, Monday is the next banking business day. If the day of deposit falls on a business holiday, the next banking business day is the deposit date.

\*\* Unless Saturday is a banking business day in the particular location.

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